



September 17, 2020

The Northwest Credit Union Association's Regulatory Affairs team monitors all National Credit Union Administration Board of Directors' meetings and provides immediate analysis to our member credit unions. Here is our analysis of the September meeting.

## Financial Health

NCUA announced an unprecedented, 13 basis point drop in the equity ratio from 1.35% to 1.22% between December 31, 2019 and June 30, 2020. At the same time, the agency announced credit unions are as healthy as they have ever been with 96.51% of insured credit unions at CAMEL 1-2 and 96.9% assets held in CAMEL 1-2 credit unions. Both are ten-year highs.

The primary driver in the change in the equity ratio was rapid share growth in insured shares of 12.95%. The Federal Credit Union Act requires each insured credit union to pay a capitalization deposit amount equal to 1.0% of its insured shares. Credit unions true up the deposit twice annually. Cycle 1 includes the capitalization adjustment for all insured credit unions. Cycle 2 includes only the capitalization adjustment for credit unions with assets of \$50 million or more. The NCUSIF will receive additional capitalization deposits of approximately \$1.5 billion from insured credit unions in October 2020 after the NCUA invoices for its semi-annual contributed capital adjustment this month. This should result in an end of year equity ratio above 1.32% if current assumptions hold.

The National Credit Union Share Insurance Fund reported a net income of \$20.5 million and \$17.7 billion in assets for Q2 2020. The fund also reported \$72.1 million in total income for Q2. One federally insured credit union failure caused a loss to the fund of \$1.6 million.

The NCUA is not anticipating having to charge a premium to maintain the equity ratio above the statutory mandated 1.2% this year. In contrast, the FDIC has announced that it will have to assess a premium to federally insured banks after the Deposit Reserve Ratio fell below the statutory mandated 1.35% due to deposit growth.

We believe the Share Insurance Fund update highlights the need to exempt deposits at the Fed and investments in Treasuries from total assets. The overall credit union system is healthy and losses to the fund are relatively low, yet the fund is experiencing downward pressure on the equity ratio for the same reason credit unions are -- rising deposits and low yields on investments. Access the NCUSIF Financial Statistics [here](#).

## Final Real Estate Appraisal Rule Adopted

The Board approved a final rule that defers the requirement to obtain an appraisal or written estimate of market value for up to 120 days following the closing of certain residential and commercial real estate transactions, excluding transactions for acquisition, development, and construction of real estate. The final rule adopted Sept. 17 makes no changes to the interim rule approved by NCUA in [April](#).

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Chairman Rodney Hood acknowledged the pandemic created difficulties for lenders to obtain timely appraisals. “As a result,” Hood said, “borrowers may be prevented from refinancing loans and gaining access to much-needed equity. Access to credit is the lifeline for many communities and families, and this access will be necessary for them to recover from any economic damage done by the COVID-19 pandemic. By deferring appraisals and evaluations up to 120 days, this rule will help bring relief and liquidity to homeowners and businesses.”

### **Exemption from Customer Identification Program**

The NCUA Board also approved an interagency order granting an exemption from the requirements found in Section 326(a) of the USA PATRIOT Act for loans extended to facilitate the financing of property and casualty insurance policies. These types of transactions are typically same-day finance arrangements, and customer identification program requirements can prove a competitive impediment to financial institutions and a burden to offering such financing. In addition, FinCEN has already exempted this type of financing arrangement from customer due diligence and beneficial owner requirements because they concluded that it represents a very low risk of money laundering or terrorist financing. FinCEN’s Bank Secrecy Act Advisory group is one of the ways that credit union leaders can help recommend improvements to BSA policies. Applications for this committee typically open in December. The Association encourages those responsible for BSA compliance within the credit union to consider applying.

### **MERIT Rollout**

Kelly Lay, the NCUA’s Director of the Office of Business Innovation, provided an update and overview on the MERIT roll out. A phased roll out remains on track for 2021. Highlights include:

- Improvement to user interface
- Secure data exchange
- Enhanced analytics

We are anticipating two Washington State chartered credit unions will have MERIT exams beginning in December. NWUCA will be following up with those credit unions and will share their experience to help Northwest credit unions prepare for the changes.

Review the MERIT briefing [here](#).

### **NWCUA Regulatory Website**

In addition to analysis of NCUA BOD meetings, NWCUA provides a comprehensive Monthly Regulatory Report detailing developments on the state and federal level, and NWCUA’s regulatory advocacy efforts. Logon to the Regulatory [website](#) to view the reports and to access regulatory resources.

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